



GASB Replaces Net Assets with Net Position

By Stephen J. Gautier

As a result of GASB Statement No. 63, the statement of financial position for state and local governments will focus on *net position* rather than on net assets.

This past June, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Henceforth, as a result of this new pronouncement, the statement of financial position for state and local governments will focus on *net position* rather than on net assets. Governments will be required to implement GASB Statement No. 63 starting with the fiscal year that ends December 31, 2012. Earlier implementation is encouraged.

BACKGROUND

Traditionally, a public-sector statement of position (balance sheet, statement of net assets) has presented three basic *elements*: assets, liabilities, and the difference between them (net assets, equity, fund balance). Recently, however, GASB Concepts Statement No. 4, *Elements of Financial Statements* added two additional basic financial statement elements: *deferred outflows of resources* and *deferred inflows of resources*. GASB Concepts Statement No. 4 defines a deferred outflow of resources as “a consumption of net assets by the government that is applicable to a future reporting period.” It defines a *deferred inflow of resources* as “an acquisition of net assets by the government that is applicable to a future reporting period.”

Thus far, the GASB has identified two specific instances where the use of these new financial statement elements would be appropriate:

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, directs that derivatives be reported at fair value. It also directs that changes in the fair value of derivatives normally be recognized as part of investment income of the period. An important exception to this general rule is a change in the fair value of a derivative instrument used in an effective hedge, which is properly reported as a *deferred outflow of resources* or a *deferred inflow of resources* (statement of position) rather than as part of investment income of the period (statement of resource flows).
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, prescribes that a government that transfers the operation of one of its facilities to an outside party pursuant to a service concession arrangement (public/private partnership) initially treat the consideration it receives from the counterparty as a *deferred inflow of resources*, rather than as revenue.

Meanwhile, the GASB has undertaken a project to identify other items currently reported as assets or liabilities that should be reclassified as deferred outflows/inflows of resources, and

issued an exposure draft in August on *Reporting Items Previously Recognized as Assets and Liabilities*.

The introduction of two new financial statement elements raises a practical issue of terminology. Prior to GASB Concepts Statement No. 4, it was accurate to describe the difference between the basic elements reported on the statement of position as *net assets*, because that amount truly represented the difference between assets and everything else:

	Assets
Less:	Liabilities
	<u>Net assets</u>

Following GASB Concepts Statement No. 4, however, the difference between 1) assets plus deferred outflows and 2) everything else can no longer properly be described as net assets:

	Assets + deferred outflows
Less:	Liabilities + deferred inflows
	<u>Net[assets + deferred outflows]</u>

Accordingly, the GASB had to come up with an appropriate term to describe the new net amount. The board also had to decide whether *net assets* should continue to be reported as a *subcategory* of this new net amount.

GUIDANCE

Accountants use the generic term *statement of financial position* to describe whatever basic financial statement is used to provide information on the balances in an entity's permanent accounts (accounts that are not closed at the end of the reporting period). Given that fact, the GASB concluded

that an appropriate term to describe the new net amount would be *net position*:

	Assets + deferred outflows
Less:	Liabilities + deferred inflows
	<u>Net position</u>

Accordingly, any statement of financial position prepared using the economic resources measurement focus and the accrual basis of accounting will henceforth replace the term *net assets* with *net position*, as follows:

Government-wide statement of *net assets* => Government-wide statement of *net position*

Statement of *net assets* (proprietary funds) => Statement of *net position* (proprietary funds)

Statement of fiduciary *net assets* => Statement of fiduciary *net position*

The GASB considered the possibility of continuing to report the three components of net assets in a separate subcategory of net position, as follows:

Assets	\$100	
Deferred outflows	5	
Liabilities		\$50
Deferred inflows		1
Net position:		
Net assets:		
Invested in capital assets, net of related debt	45	
Restricted	2	
Unrestricted	3	
Other	<u>4</u>	

Ultimately, however, the board decided to report only net position, using a modified form of the current three components used for net assets:

Assets	\$100	
Deferred outflows	5	
Liabilities		\$50
Deferred inflows		1
Net position:		
Net investment in capital assets	45	
Restricted	3	
Unrestricted	6	

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A deferred outflow of resources or a deferred inflow of resources could have a significant effect on the amount reported in one of the three components of *net position*. Assume, for example, that a government transferred the management of one of its facilities to an outside party pursuant to a 20-year service concession arrangement in consideration of a \$100 upfront cash payment that was offset by a corresponding \$100 deferred inflow of resources. The initial transaction would have no effect on the categorization of net position (\$100 asset - \$100 *deferred inflow of resources* = \$0 net position). However, once the government began to spend the cash, the difference between the unspent cash balance and the unamortized balance of the deferred inflow of resources that produced the cash could become significant to the component of *net position* in which it is included. If so, GASB Statement No. 63 would require a note disclosure of that fact. ■

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